

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Saginaw-Midland Municipal	County Saginaw
Audit Date June 30, 2006	Opinion Date July 14, 2006	Date Accountant Report Submitted to State: August 21, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C. CPAs			
Street Address 3023 Davenport Avenue P.O. Box 3275	City Saginaw	State MI	ZIP 48605
Accountant Signature 			

**SAGINAW-MIDLAND MUNICIPAL
WATER SUPPLY CORPORATION**

Bay City, Michigan

Annual Financial Statements

and

Auditors' Report

June 30, 2006

Table of Contents

<u>Section</u>		<u>Page</u>
1	Independent Auditors' Report	1
2	Management's Discussion and Analysis	2
3	Basic Financial Statements	
	Proprietary Fund	
	Water Supply Fund	
	Statement of Net Assets	7
	Statement of Revenues, Expenses and Changes in Net Assets	9
	Statement of Cash Flows	10
	Notes to Financial Statements	11
4	Supplementary Financial Data	
	Schedule of Indebtedness	21
	Schedule of Financial Highlights	22



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Independent Auditors' Report

To the Board of Trustees of
Saginaw-Midland Municipal Water Supply Corporation
Bay City, Michigan

We have audited the statement of net assets of Saginaw-Midland Municipal Water Supply Corporation as of June 30, 2006 and 2005, and the related statements of revenue, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the June 30, 2006 and 2005, financial statements referred to above present fairly, in all material respects, the financial position of Saginaw-Midland Municipal Water Supply Corporation as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The supplementary financial data identified in the table of contents, although not considered necessary for a fair presentation of financial position, results of operation and cash flows are presented primarily for supplemental analysis purposes.

Yeo & Yeo, P.C.

Saginaw, Michigan
July 13, 2006



MANAGEMENT'S DISCUSSION AND ANALYSIS

The Saginaw-Midland Municipal Water Supply Corporation is presenting the following management discussion and analysis in order to provide an overall review of the Corporation's financial activities for the fiscal year ending June 30, 2005. We encourage readers to consider the information presented here in conjunction with the Corporation's financial statements and notes included with same to enhance their understanding of the Corporation's financial performance.

BACKGROUND

The Saginaw-Midland Municipal Water Supply Corporation (Corporation) for more than 58 years has been reliably providing a high-quality source of Lake Huron drinking water to its owners and customers. The Corporation's annual production is nearing 20 billion gallons with peak days climbing near 100 million gallons. The Corporation operates with three plants and is a bulk supplier of high quality raw water to its owners and customers eventually resulting in service to over 260,000 residents in 30 cities or communities in six (6) Michigan counties. The Corporation's water supply efforts are often referred to as a model illustration of cooperation between two communities for the common good.

The Corporation is the primary government reporting entity even though it is jointly owned by two (2) municipalities, the City of Saginaw and the City of Midland. The ownership ratio of Saginaw and Midland is as follows:

City of Saginaw	53.48837 percent
City of Midland	46.51163 percent

The Corporation is a non-profit municipal corporation operating under Act 233, Michigan Public Acts of 1955.

FINANCIAL HIGHLIGHTS

- The Corporation's total assets decreased \$678,295 while total liabilities decreased \$1,290,584 resulting in total net assets increasing \$612,289 or 4.04% over the course of the year's operations.
- The Corporation's operating expenses in 2004-2005 were \$86,912 higher than 2003-2004 expenses. Most of the increase was due to increased labor related expenses as well as increased electrical and natural gas costs.
- The Corporation's revenue from water sales to its commercial wholesale raw water customers remains relatively constant. The total volume of water sales to these

customers aggregated over 229 million gallons, or less than two (2) percent of the total water pumped.

- Investment income increased in 2004-2005, reflective of rising interest rates.
- The Corporation is in the third year of an economically sound three (3) year labor contract with the Corporation's hourly unionized employees. The agreement with the Saginaw-Midland Water Supply System Employee's Union covers the period 2003 through 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual audit report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Corporation. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The Corporation's financial statements report information using accounting methods similar to those used by private sector companies. These statements offer short - and long-term financial information about its activities. The Statement of Net Assets includes all of the Corporation's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Corporation's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Corporation and assessing the liquidity and financial flexibility of the Corporation.

All of the current years' revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Corporation's operations over the past year and can be used to determine whether the Corporation has successfully recovered all its costs. The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to the origins of income, its uses and changes in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE CORPORATION

A summary of the Corporation's Statement of Net Assets is presented in Table A-1.

Table A-1

Statement of Net Assets - Summary

	<u>2004-2005</u>	<u>2003-2004</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Total Current Assets	\$316,272	\$291,798	\$24,474	8.39%
Total Restricted Assets	\$1,319,947	\$1,258,546	\$61,401	4.88%
Net Property, Plant and Equipment	\$36,077,486	\$36,817,763	(\$740,277)	-2.01%
Deferred Bond Issue Costs	\$286,710	\$310,603	(\$23,893)	-7.69%
Total Assets	\$38,000,415	\$38,678,710	(\$678,295)	-1.75%
Total Current Liabilities	\$1,674,804	\$1,577,130	\$97,674	6.19%
Total Long Term Debt	\$20,424,906	\$21,831,982	(\$1,407,076)	-6.45%
Post Retiree Health Cost - Funded	\$131,783	\$112,965	\$18,818	16.66%
Total Liabilities	\$22,231,493	\$23,522,077	(\$1,290,584)	-5.49%
Invested in Capital Assets, Net of Related Debt	\$14,232,580	\$13,620,781	\$611,799	4.49%
Restricted for Improvement & Emergency Repair	\$1,188,164	\$1,145,581	\$42,583	3.72%
Unrestricted Assets	\$348,178	\$390,271	(\$42,093)	-10.79%
Total Net Assets	\$15,768,922	\$15,156,633	\$612,289	4.04%

As can be seen from Table A-1, net assets increased \$612,289 to \$15,768,922 in 2004-2005 from \$15,156,633 in 2003-2004. There were no expenditures from the Improvement & Emergency Repair (I&ER) Fund during 2004-2005 for emergency repairs. The I&ER Fund increased as the owner cities continue to contribute funds at a level of \$.01 per 1000 gallons delivered. The Post Retiree Health Cost Fund continues to be funded by the owner cities at a level of \$.001 per 1000 gallons delivered.

Table A-2

Statement of Revenues, Expenses and Changes in Net Assets - Summary

	<u>2004-2005</u>	<u>2003-2004</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues - Water Sales	\$4,564,430	\$4,522,381	\$42,049	0.93%
Operating Expenses	\$2,954,950	\$2,868,038	\$86,912	3.03%
Operating Income	\$1,609,480	\$1,654,343	(\$44,863)	-2.71%
Net Non-Operating Revenues (Expenses)	(\$997,191)	(\$1,392,108)	\$394,917	-28.37%
Changes in Net Assets	\$612,289	\$262,235	\$350,054	
Beginning Net Assets	\$15,156,633	\$14,894,398	\$262,235	
Ending Net Assets	\$15,768,922	\$15,156,633	\$612,289	

While the Statement of Net Assets (Table A-1) shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets (Table A-2) provides answers as to the nature and source of these changes. The Corporation operates with one fund, an enterprise fund on a full accrual basis of accounting similar to private sector companies. The income is recognized when earned and the expense

is recognized when incurred. Operating revenues are directly related to operating expenses. The Corporation closes its books at the end of each month and prepares financial reports and billings to its owners and customers such that all costs are covered. As can be seen in Table A-2 above, operating expenses increased in 2004-2005 by \$86,912, most of which was due to increased labor related expenses as well as increased electrical and natural gas costs.

BUDGETARY HIGHLIGHTS

The Corporation adopts an annual Operating Budget following review by the Board of Trustees. The Operating Budget includes proposed expenses and anticipated water sales. Each quarter, the Manager provides a Budget Position Statement for the Board's review where actual expenditures are compared to budgeted funds for each account. The Corporation's operating budget remains in effect the entire year. The Corporation has never operated over its approved budget and maintains a philosophy of only spending funds that are regarded as necessary. A budget comparison and analysis is presented in Table A-3.

Table A-3
Budget Comparison and Analysis

<u>Year</u>	<u>Budgeted Expense</u>	<u>Actual Expense</u>	<u>Percent Under</u>
2005-2006	\$4,972,230	NA	
2004-2005	\$4,882,835	\$4,576,044	6.28%
2003-2004	\$4,870,883	\$4,527,326	7.05%
2002-2003	\$4,541,307	\$4,186,334	7.82%
2001-2002	\$4,655,605	\$4,431,505	4.81%

The Board of Trustees and management of the Corporation consider many factors when setting the fiscal year budget. In 2004-2005 the non-operating revenue variance is actual investment income over budget. The water sold was under budget by 4.78 percent, while expenses were also held at 6.28 percent under budget. Most of the expense savings were accrued in purchased electrical energy.

CAPITAL ASSETS

At the end of 2005, the Corporation had \$36,077,486 invested in capital assets including the Water System (Whitestone Pumping Station, Pinconning Booster Station, Junction Booster Station, and complete underground distribution system) as well as other assets as shown in Table A-4. There were no additions or deletions to the Water System or Furniture and fixtures during 2004-2005. The increase in machinery & equipment and vehicles is reflective of recognizing asset upgrades.

Table A-4
Capital Assets

	<u>2004-2005</u>	<u>2003-2004</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Capital Assets				
Water System	\$58,393,126	\$58,393,126	\$0	0.00%
Furniture and Fixtures	\$14,925	\$14,925	\$0	0.00%
Vehicles	\$84,927	\$82,525	\$2,402	2.91%
Machinery and Equipment	<u>\$467,070</u>	<u>\$465,664</u>	<u>\$1,406</u>	<u>0.30%</u>
Total Capital Assets	\$58,960,048	\$58,956,240	\$3,808	0.01%
Less Accumulated Depreciation	<u>\$22,882,562</u>	<u>\$22,138,477</u>	<u>\$744,085</u>	<u>3.36%</u>
Net Capital Assets	<u><u>\$36,077,486</u></u>	<u><u>\$36,817,763</u></u>	<u><u>(\$740,277)</u></u>	<u><u>-2.01%</u></u>

The Corporation's five-year Capital Plan includes improvements to the Junction Station yard piping and electrical system reliability at the Whitestone Pumping Station. Also included in the Capital Plan is the updating of the disinfection systems, replacement of the roof at the Whitestone Plant, improvements to the chlorine storage facilities, and the implementation of GPS pipeline location methodologies.

DEBT ADMINISTRATION

General obligation indebtedness outstanding at June 30, 2005 amounted to \$21,844,906. Interest on these bonds is payable semi-annually. More detailed information about the Corporation's long-term liabilities is presented in note 5 of the financial statements.

WATER RATES

Wholesale Water

The Corporation evaluates water rates charged to its five (5) municipal customers every 3 years. The most recent rate study was undertaken in 2003 and the results confirmed that the current rates are fair and equitable to both parties. The water rate design was developed on the "utility basis" of rate making as recommended in the American Water Works Association's Manual of Water Supply Practices M-1, entitled "Principles of Water Rates, Fees, and Charges," Fifth Edition, 2000. Details of the water rate design are based on the Modified Base-Extra Capacity Method, which most appropriately assigns equitable charges to recover the full cost of water service to the Corporation.

Owner City Costs

The owners of the Corporation purchase their water each month on a cost basis. The real test of the effectiveness of management and the efficiency of the operation is a review of the cost per 1000 gallons of water delivered to the owner cities. The cost of water includes operating expense, improvement and emergency repair expense, bond interest, loss on early retirement of debt, and depreciation less other income. The net expense for raw water delivered has been computed as shown Table A-5.

Table A-5

	<u>Millions of Gallons Pumped</u>				
<u>Year ended June 30,</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
City of Saginaw	8,709.50	8,840.66	9,459.38	9,495.97	9,198.32
City of Midland	<u>8,168.69</u>	<u>8,186.54</u>	<u>8,604.80</u>	<u>8,659.17</u>	<u>8,074.20</u>
	16,878.19	17,027.20	18,064.18	18,155.14	17,272.52

	<u>Expense Per 1000 Gallons Pumped</u>				
<u>Year ended June 30,</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net Expenses	\$0.2242	\$0.2406	\$0.2050	\$0.2224	\$0.2340

CORPORATION CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact: Michael Quinnell, Manager/Secretary - Treasurer, Saginaw-Midland Municipal Water Supply Corporation, 4678 S. Three Mile Road, Bay City, MI 48706 or by phone at 989-684-2220 or by email at office@sagmid.com.

Saginaw-Midland Municipal Water Supply Corporation
Water Supply Fund
Statement of Net Assets
June 30, 2006 and 2005

	June 30, <u>2006</u>	<u>2005</u>
Assets		
Current assets		
Cash	\$ 100	\$ 100
Due from other governmental units		
City of Saginaw	112,788	98,210
City of Midland	91,909	88,536
Others	17,771	16,084
Inventories	74,727	74,727
Prepaid expenses	37,577	38,615
Total current assets	<u>334,872</u>	<u>316,272</u>
Noncurrent assets		
Restricted assets		
Bond - 2006 Project		
Cash	818,940	-
Cash equivalents	1,600,000	-
Retiree health benefits		
Cash	167,242	130,222
Due from other governmental units	3,200	1,561
Improvement and emergency repair		
Cash	188,277	405,099
Cash equivalents	1,273,080	767,451
Due from other governmental units	15,998	15,614
Total restricted assets	<u>4,066,737</u>	<u>1,319,947</u>
Property, plant and equipment		
Water system	58,393,126	58,393,126
Furniture and fixtures	14,925	14,925
Vehicles	83,706	84,927
Machinery and equipment	471,882	467,070
	<u>58,963,639</u>	<u>58,960,048</u>
Less: accumulated depreciation	(23,635,410)	(22,882,562)
Construction in progress	198,832	-
Net property, plant and equipment	<u>35,527,061</u>	<u>36,077,486</u>
Other assets		
Deferred bond issue costs	309,490	286,710
Total noncurrent assets	<u>39,903,288</u>	<u>37,684,143</u>
Total assets	<u>40,238,160</u>	<u>38,000,415</u>

See Accompanying Notes to Financial Statements

Saginaw-Midland Municipal Water Supply Corporation
Water Supply Fund
Statement of Net Assets
June 30, 2006 and 2005

	June 30, <u>2006</u>	<u>2005</u>
Liabilities		
Current liabilities		
Current portion of bonds payable	\$ 1,575,000	\$ 1,420,000
Checks written against future deposits	34,517	30,968
Accounts payable	2,451	4,782
Accrued power	68,159	54,864
Accrued vacation and sick pay	171,792	164,000
Accrued payroll	<u>230</u>	<u>190</u>
Total current liabilities	<u>1,852,149</u>	<u>1,674,804</u>
Noncurrent liabilities		
Long term debt		
Bonds payable, net of current portion	21,670,000	20,580,000
Less unamortized discount on 1998 bond issue	(40,700)	(44,400)
Less deferred amount on refunding 2002 bond issue	(101,469)	(110,694)
Less unamortized discount on 2006 bond issue	<u>(16,899)</u>	<u>-</u>
Total long term debt	21,510,932	20,424,906
Post retiree health cost - funded	<u>170,442</u>	<u>131,783</u>
Total noncurrent liabilities	<u>21,681,374</u>	<u>20,556,689</u>
Total liabilities	<u>23,533,523</u>	<u>22,231,493</u>
Net assets		
Invested in capital assets, net of related debt	12,750,619	14,519,290
Restricted for improvement and emergency repair	1,477,355	1,188,164
Restricted for 2006 bond project	2,418,940	-
Unrestricted	<u>57,723</u>	<u>61,468</u>
Total net assets	<u>\$ 16,704,637</u>	<u>\$ 15,768,922</u>

See Accompanying Notes to Financial Statements

Saginaw-Midland Municipal Water Supply Corporation
Water Supply Fund
Statement of Revenues, Expenses
and Changes in Net Assets
Year Ended June 30, 2006 and 2005

	Year Ended June 30,	
	<u>2006</u>	<u>2005</u>
Operating revenues		
Water sales		
City of Saginaw	\$ 2,325,103	\$ 2,314,000
City of Midland	2,086,949	2,081,945
Other water sales	<u>169,332</u>	<u>168,485</u>
Total operating revenues	<u>4,581,384</u>	<u>4,564,430</u>
Operating expenses		
Water supply expenses	2,203,533	2,190,325
Depreciation	<u>764,659</u>	<u>764,625</u>
Total operating expenses	<u>2,968,192</u>	<u>2,954,950</u>
Operating income	<u>1,613,192</u>	<u>1,609,480</u>
Nonoperating revenues (expenses)		
Miscellaneous income	2,196	4,692
Interest on investments	32,588	6,924
Improvement and emergency repair revenue	188,880	182,084
Improvement and emergency repair reimbursement	189,608	-
Gain on sale of property, plant and equipment	3,999	7,471
Bond interest expense	(967,629)	(1,021,041)
Loss on early retirement of debt	(37,821)	(37,821)
Improvement and emergency repair expenses	<u>(89,298)</u>	<u>(139,500)</u>
Net nonoperating revenues (expenses)	<u>(677,477)</u>	<u>(997,191)</u>
Increase in net assets	935,715	612,289
Net assets		
Net assets, beginning of year	<u>15,768,922</u>	<u>15,156,633</u>
Net assets, end of year	<u>\$ 16,704,637</u>	<u>\$ 15,768,922</u>

See Accompanying Notes to Financial Statements

Saginaw-Midland Municipal Water Supply Corporation
Water Supply Fund
Statement of Cash Flows
Year Ended June 30, 2006 and 2005

	Year Ended June 30,	
	2006	2005
Cash flows from operating activities		
Water sales	\$ 4,559,723	\$ 4,538,925
Payment to suppliers	(1,501,878)	(1,441,312)
Payment to employees	(697,078)	(694,616)
Net cash provided by operating activities	<u>2,360,767</u>	<u>2,402,997</u>
Cash flows from non-capital financing activities		
Cash funding of post retirement liability	38,659	18,818
Proceeds from salvage and miscellaneous	<u>2,196</u>	<u>4,692</u>
Net cash provided from non-capital financing activities	<u>40,855</u>	<u>23,510</u>
Cash flows from capital and related financing activities		
Proceeds from sale of capital assets	6,952	11,080
Acquisition and construction of capital assets	(217,187)	(27,957)
Proceeds from sale of 2006 bond issue	2,665,000	-
Principal paid on bonds and notes payable	(1,420,000)	(1,365,000)
Interest paid	(1,013,398)	(1,033,014)
Cash reimbursement to improvement and emergency repair	189,608	-
Cash funding of improvement and emergency repair	188,880	182,084
Improvement and emergency repair uses	<u>(89,298)</u>	<u>(139,500)</u>
Net cash provided (used) for capital and related financing activities	<u>310,557</u>	<u>(2,372,307)</u>
Cash flows from investing activities		
Interest earned	<u>32,588</u>	<u>6,924</u>
Net increase in cash and cash equivalents	<u>2,744,767</u>	<u>61,124</u>
Cash and cash equivalents, beginning of year	<u>1,302,872</u>	<u>1,241,748</u>
Cash and cash equivalents, end of year	<u>\$ 4,047,639</u>	<u>\$ 1,302,872</u>
Reconciliation of net operating revenues (expenses to net cash provided by (used in) operating activities:		
Operating income	\$ 1,613,192	\$ 1,609,480
Noncash items included in operating income		
Depreciation	764,659	764,625
(Increase) decrease in		
Due from other governmental units	(21,661)	(25,505)
Prepaid expenses	1,038	(2,477)
Cafeteria plan receivable	-	3,231
Other assets	(22,780)	23,893
(Decrease) increase in		
Checks written against future deposits	3,549	27,839
Accounts payable	(2,331)	3,170
Accrued expenses	21,127	11,665
Bond discounts	<u>3,974</u>	<u>(12,924)</u>
Net cash provided by operating activities	<u>\$ 2,360,767</u>	<u>\$ 2,402,997</u>

See Accompanying Notes to Financial Statements

Saginaw-Midland Municipal Water Supply Corporation
Notes to Financial Statements
June 30, 2006

NOTE 1 - DESCRIPTION OF THE ENTITY

The Saginaw-Midland Municipal Water Supply Corporation is an Authority created by the City of Saginaw and the City of Midland under Act 233, Public Acts of Michigan, 1955. The Authority was created in 1964 for the purpose of acquiring and operating a new water supply system to supplement the existing joint system that had been in existence since 1946.

On May 16, 1985, the Saginaw-Midland Municipal Water Supply Corporation, the City of Saginaw and the City of Midland and the Board of Water Commissioners of the Saginaw-Midland Water Supply System entered into an agreement to consolidate the operation of the joint water system under the Saginaw-Midland Municipal Water Supply Corporation effective June 30, 1985. The agreement provides that ownership interest shall remain as 23/43rds for the City of Saginaw and 20/43rds for the City of Midland. On March 3, 1986, both the Cities of Saginaw and Midland adopted resolutions to abolish the Board of Water Commissioners of the Saginaw-Midland Water Supply System.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Saginaw-Midland Municipal Water Supply Corporation conform to accounting principles generally accepted in the United States of America applicable to state and local governments.

The following significant accounting policies were applied in the preparation of the accompanying financial statements:

THE REPORTING ENTITY

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The Saginaw-Midland Municipal Water Supply Corporation is the primary government, which has oversight responsibility and control over all activities. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Saginaw-Midland Municipal Water Supply Corporation (the primary government) and do not include any other component within its financial statements.

The Saginaw-Midland Municipal Water Supply Corporation operates the water system generally known as the Saginaw-Midland Water Supply System. Ownership of the system, with the exception of the 1967 Saginaw extension, is divided as follows:

City of Saginaw	23/43
City of Midland	20/43

The Saginaw-Midland Municipal Water Supply Corporation is considered a joint venture with equity interest belonging to the City of Saginaw and the City of Midland. Both cities appoint three board members to the Corporation's Board of Trustees.

Saginaw -Midland Municipal Water Supply Corporation
Notes to Financial Statements
June 30, 2006

BASIS OF PRESENTATION

The financial activities of the Corporation are recorded within one fund, categorized and described as follows:

PROPRIETARY FUND

Enterprise Fund - The Enterprise Fund reports operations that provide services, which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

The accrual basis of accounting is used in recording Enterprise Fund transactions, whereby revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of 90 days or less when purchased are considered to be cash equivalents. In addition, the Corporation includes short-term investments that are tradable within a three day period as part of cash and cash equivalents.

DUE FROM OTHER GOVERNMENT UNITS

Due from other government units have been recognized for all significant amounts due to the Corporation. Allowances for uncollectible accounts have not been provided because management does not consider collection doubtful, and feels any uncollected amounts would be immaterial.

INVENTORY

Inventories are valued at cost using the first-in, first-out method.

PROPERTY, PLANT AND EQUIPMENT

Building improvements greater than \$75,000 and equipment, furniture and vehicles greater than \$1,000 are capitalized at the time the costs are incurred. Depreciation is provided using the straight-line method for these capital assets, based on the estimated useful lives, commencing at the time the capital assets are put into operation.

Saginaw -Midland Municipal Water Supply Corporation
Notes to Financial Statements
June 30, 2006

COST OF BORROWING

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

SIGNIFICANT CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Corporation to concentrations of credit risk, consist principally of cash and cash equivalents. The Corporation invests temporary cash in money market securities in various banks and securities backed by the United States Government. Amounts invested in a single institution are limited to minimize risk. The Corporation evaluates the institutions that they place cash and cash equivalents in for financial stability and monitor them on a continuous basis.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

In accordance with GASB Statement 20, the Corporation has elected not to apply the FASB statements and interpretations issued after November 30, 1989, to its financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2006, the Corporation had no investments .

Interest rate risk – The Corporation does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk - As a component unit of a city, the Corporation's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The Corporation's investment policy limits investments in corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations.

Concentration of credit risk – The Corporation has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. The Corporation believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Corporation evaluates each institution it deposits funds with and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories. As of June 30, 2006, \$3,949,863 of the Corporation's bank balance of \$4,049,863 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Saginaw-Midland Municipal Water Supply Corporation
Notes to Financial Statements
June 30, 2006

NOTE 4 - PROPERTY AND EQUIPMENT

The following table presents the changes in the various fixed assets class categories for the year ended June 30, 2006 as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets:				
Assets not being depreciated				
Construction in progress	\$ -	\$ 198,832	\$ -	\$ 198,832
Other capital assets				
Water system	58,393,126	-	-	58,393,126
Furniture and fixtures	14,925	-	-	14,925
Vehicles	84,927	13,543	14,764	83,706
Machinery and equipment	467,070	4,812	-	471,882
Total capital assets	58,960,048	217,187	14,764	59,162,471
Less accumulated depreciation				
Water system	22,418,563	730,802	-	23,149,365
Furniture and fixtures	8,962	1,084	-	10,046
Vehicles	36,507	16,863	11,811	41,559
Machinery and equipment	418,530	15,910	-	434,440
Total accumulated depreciation	22,882,562	764,659	11,811	23,635,410
Capital assets, net	<u>\$ 36,077,486</u>	<u>\$ (547,472)</u>	<u>\$ 2,953</u>	<u>\$ 35,527,061</u>

NOTE 5 - LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended June 30, 2006.

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2006</u>
Bonds payable - joint project				
issue 1998 - 4.25% to 5% due 9/1/2016	\$ 11,480,000	\$ -	\$ (1,075,000)	\$ 10,405,000
Refunding bonds payable - joint project				
issue 2002 - 2.0% to 5.25% due 9/1/2016	10,520,000	-	(345,000)	10,175,000
Bonds payable				
issue 2006 - 4.25% to 4.1% due 9/1/2021	-	2,665,000	-	2,665,000
	22,000,000			23,245,000
Less unamortized bond discounts				
1998 bond issue	(44,400)	-	3,700	(40,700)
2002 bond issue	(110,694)	-	9,225	(101,469)
2006 bond issue	-	(16,899)	-	(16,899)
Total debt	21,844,906			23,085,932
Less current portion	1,420,000			1,575,000
Total long-term debt	<u>\$ 20,424,906</u>			<u>\$ 21,510,932</u>

Saginaw-Midland Municipal Water Supply Corporation
Notes to Financial Statements
June 30, 2006

Bonds payable at June 30, 2006 and 2005 are comprised of the following individual issues:

1998 Refunding Issue

On March 5, 1998, the corporation issued \$13,920,000 Water Supply Refunding Revenue Bonds (Limited Tax General Obligation), Series 1998.

The bonds were issued under the provisions of Act 94, Public Acts of Michigan, 1933, as amended, Act 233, Public Acts of Michigan, 1995, as amended, and resolutions and ordinances (the "Resolutions") of the Saginaw-Midland Municipal Water Supply Corporation (the "Corporation") for the purpose of refunding a portion of the Corporation's Water Supply System Revenue Bonds, Series 1992 and the Corporation's Water Supply System Refunding Revenue Bonds, Series 1992 (together the "prior Bonds"). The Bonds are payable solely from net revenues of the Saginaw Midland Water Supply System (the "System") and any addition is thereto, and a statutory first lien on said revenues has been established by the Resolutions. The Corporation has covenanted and agreed to fix and maintain at all times while any of the Bonds shall be outstanding such rates for service furnished by the System as shall be sufficient to provide for payment of the necessary expenses of operation, maintenance and administration of the System, payment of the principal and interest on all of the Bonds when due, and to provide for such other expenditures and funds for the System as are required by said Resolutions.

The net revenues of the System consist of certain contractual payments to be made to the Corporation by the City of Saginaw, Michigan and the City of Midland, Michigan (collectively the "Cities") pursuant to an amended contract (the "Contract"). Pursuant to the contract, the Cities are obligated to purchase water from the Corporation as a cost of operation of the water systems of each of the Cities. The Cities have pledged their limited tax full faith and credit for the payment of their proportion of the contractual payments which includes the Cities' obligation to levy taxes, if necessary, within applicable constitutional, statutory and charter limitations for the payment of said contractual payments. The Cities do not have the power to levy additional taxes in excess of their respective applicable constitutional, statutory and charter limitations for the payment of their contractual payments. The rights or remedies of bondholders may be affected by bankruptcy, insolvency, fraudulent conveyance or other laws affecting creditors' right generally, now existing or hereafter enacted, and by the application of general principles of equity including those relating to equitable subordination.

2002 Refunding Issue

On September 1, 2002, the corporation issued \$11,180,000 Water Supply Refunding Revenue Bonds (Limited Tax General Obligation), Series 2002.

The bonds were issued under the provisions of Act 94, Public Acts of Michigan, 1933, as amended, Act 233, Public Acts of Michigan, 1995, as amended, Act 34, Public Acts of Michigan, 2001, as amended, and resolutions and ordinances (the "Bond Authorization") of the Saginaw-Midland Municipal Water Supply Corporation (the "Corporation") for the purpose of refunding the Corporation's outstanding Water Supply System Revenue Bonds (Limited Tax general Obligation), Series 1993 (the "Prior Bonds"). The Bonds are payable solely from net revenues of the Saginaw Midland Water Supply System (the "System") and any addition is thereto, and a statutory first lien on such revenues has been established by the Bond Authorization. The Corporation has covenanted and agreed to fix and maintain at all times while any of the Bonds shall be outstanding such rates for service furnished by the System as shall be sufficient to provide for payment of the necessary expenses of operation, maintenance and administration of the System, payment of the principal and interest on all of the Bonds when due, and to provide for such other expenditures and funds for the System as are required by the Bond Authorization.

Saginaw-Midland Municipal Water Supply Corporation
Notes to Financial Statements
June 30, 2006

The net revenues of the System consist of certain contractual payments to be made to the Corporation by the City of Saginaw, Michigan and the City of Midland, Michigan (collectively the "Cities") pursuant to an amended contract (the "Contract"). Pursuant to the Contract, the Cities are obligated to purchase water from the Corporation as a cost of operation of the water systems of each of the Cities. The Cities have pledged their limited tax full faith and credit for the payment of their proportion of the contractual payments which includes the Cities' obligation to levy taxes, if necessary, within applicable constitutional, statutory and charter limitations for the payment of the contractual payments. The rights or remedies of bondholders may be affected by bankruptcy, insolvency, fraudulent conveyance or other laws affecting creditors' right generally, now existing or hereafter enacted, and by the application of general principles of equity including those relating to equitable subordination.

2006 Issue

On April 24, 2006, the corporation issued \$2,665,000 Water Supply System Revenue Bonds (Limited Tax General Obligation) Series 2006.

The bonds were issued under the provisions of Act 94, Public Acts of Michigan, 1933, as amended, Act 233, Public Acts of Michigan, 1995, as amended, and Ordinance No. 1 as amended by subsequently adopted Ordinances and Ordinance No. 2005-1 of the Issuer, for the purpose of defraying the cost of acquiring and constructing enlargements and extensions to the Saginaw-Midland Municipal Water Supply Corporation (the "System") The Bonds are payable solely from net revenues of the System and any addition is thereto, and a statutory first lien on said revenues has been established by the Ordinances, which lien is of equal standing with the lien established for the Issuer's (i) Water Supply Revenue Bonds (Limited Tax General Obligation), Series 1992, in the original principal amount of \$7,500,000, (ii) Water Supply System Refunding Revenue Bonds (Limited Tax General Obligation) Series 1992 in the original principal amount of \$10,125,000, (iii) Water Supply System Refunding Revenue Bonds, Series 1998 (Limited Tax General Obligation) in the original principal amount of \$13,920,000, and (iv) Water Supply Refunding Revenue Bonds, Series 2002 (Limited Tax General Obligation) in the original principal amount of \$11,180,000. The Issuer has covenanted and agreed to fix and maintain at all times while any such Bonds shall be outstanding such rates for service furnished by the System as shall be sufficient to provide for such other expenditures and funds for the System as are required by said Ordinances .

The net revenues of the System consist of certain Contractual Payments to be made to the Issuer by the City of Saginaw, Michigan and the City of Midland, Michigan (collectively the "Cities") pursuant to a 2005 Revenue Contract Supplement, dated as of January 1, 2005 (the "Contract"). Pursuant to the Contract the cities are obligated to purchase water from the Corporation as a cost of operation of the water systems of each of the Cities. The Cities have pledged their limited tax full faith and credit for the payment of their proportion of the Contractual Payments which includes the Cities' obligation to levy taxes, if necessary, within applicable constitutional, statutory and charter limitations for the payment of the contractual payments. The rights or remedies of bondholders may be affected by bankruptcy laws or other creditors' rights legislation now existing or hereafter enacted.

Saginaw -Midland Municipal Water Supply Corporation
Notes to Financial Statements
June 30, 2006

The annual requirements to amortize the debt outstanding as of June 30, 2006 including interest payments of \$7,019,174 are as follows:

Year Ended June 30,	Principal			Interest	Total
	1998	2002	2006		
2007	\$ 1,090,000	\$ 385,000	\$ 100,000	\$ 1,006,844	\$ 2,581,844
2008	1,110,000	425,000	85,000	960,231	2,580,231
2009	1,185,000	415,000	90,000	892,311	2,582,311
2010	1,235,000	435,000	95,000	820,117	2,585,117
2011	800,000	940,000	105,000	746,061	2,591,061
2012	790,000	1,060,000	85,000	660,824	2,595,824
2013	785,000	1,155,000	80,000	568,343	2,588,343
2014	785,000	1,245,000	95,000	475,818	2,600,818
2015	820,000	1,310,000	105,000	370,678	2,605,678
2016	865,000	1,380,000	110,000	253,533	2,608,533
2017	940,000	1,425,000	115,000	130,164	2,610,164
2018	-	-	400,000	58,650	458,650
2019	-	-	400,000	42,000	442,000
2020	-	-	400,000	25,200	425,200
2021	-	-	400,000	8,400	408,400
	<u>\$ 10,405,000</u>	<u>\$ 10,175,000</u>	<u>\$ 2,665,000</u>	<u>\$ 7,019,174</u>	<u>\$ 30,264,174</u>

NOTE 6 - RESTRICTED NET ASSETS

Detail of restricted net assets is as follows:

	June 30,	
	2006	2005
Restricted in use for 2006 bond project	<u>\$ 2,418,940</u>	<u>\$ -</u>
Restricted in use for post retirement health care		
Assets	\$ 170,442	\$ 131,783
Liability	<u>(170,442)</u>	<u>(131,783)</u>
	<u>\$ -</u>	<u>\$ -</u>
Restricted in use for improvements and emergency repairs to the system		
Saginaw	\$ 790,188	\$ 635,504
Midland	<u>687,167</u>	<u>552,660</u>
	<u>\$ 1,477,355</u>	<u>\$ 1,188,164</u>

Saginaw -Midland Municipal Water Supply Corporation
Notes to Financial Statements
June 30, 2006

NOTE 7 - PENSION PLANS

DEFINED BENEFIT PLAN

PLAN DESCRIPTION

The Corporation participates in the Michigan Municipal Employees Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers substantially all employees of the Corporation hired prior to February 1, 2000. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

FUNDING POLICY

The obligation to contribute to and maintain the system for these employees was established primarily by negotiation with the Corporation's collective bargaining unit, and requires a contribution from the union employees of 3% and non-union employees of 5% of gross wages. The Corporation's funding policy provides for monthly employee and employer contributions at actuarially determined rates which amounted to 10.1% and 7.9% of covered payroll for the years ended June 30, 2006 and 2005, respectively.

ANNUAL PENSION COST

For years ended June 30, 2006 and 2005 the Corporation's annual pension cost of \$56,407 and \$41,611, respectively equaled the Corporation's required and actual contribution. Actuarial valuations of each participating municipality in the Municipal Employees' Retirement System are prepared annually to determine the actuarial condition of the Retirement System and the employer contribution rates required to fund MERS on an actuarial reserve basis. The calculated employer contribution rates derived from this actuarial valuation as of December 31, 2001 are based on the present provisions of the Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220, as embodied in the MERS Plan Document (as revised). Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, compounded annually, attributable to inflation, and (c) additional projected salary increases of zero percent to 8.40 percent per year, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

THREE YEAR TREND INFORMATION

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 40,352	100%	None
2005	41,611	100%	None
2006	56,407	100%	None

Saginaw -Midland Municipal Water Supply Corporation
Notes to Financial Statements
June 30, 2006

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	APC as a Percent of Covered Payroll
12/31/03	\$ 2,414,420	\$ 2,813,232	\$ 398,812	86%	\$ 528,050	8%
12/31/04	2,414,832	3,062,662	647,830	79%	526,579	8%
12/31/05	2,403,471	3,178,865	775,394	76%	560,305	10%

DEFINED CONTRIBUTION PLAN

The Corporation participates in the Municipal Employees Retirement System of Michigan (MERS), in the form of the ICMA Retirement Corporation Governmental Money Purchase Plan and Trust, as amended and as authorized by Section 19A of the Municipal Employees' Retirement System of Michigan Plan Document. This defined contribution plan covers substantially all employees of the Corporation hired after January 31, 2000. The obligation to contribute to and maintain the system for these employees was established primarily by negotiation with the Corporation's collective bargaining unit and requires an employer contribution of 6% of covered payroll, while requiring zero percent contribution from the employee. In addition, the employer will match employee contributions of 3% of covered payroll for those employees who exercise the one time voluntary contribution election. For the year ended June 30, 2006 and 2005 the Corporation contributed \$10,832 and \$10,281 and employees contributed \$3,611 and \$3,427, respectively.

NOTE 8 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Corporation provides post-retirement health coverage under its Blue Cross insurance plan to all salary employees and their qualified spouse hired prior to September 30, 1998. In addition, the Corporation provides post-retirement health coverage to the manager and qualified spouse of the Corporation hired in fiscal year 2004. Employees hired prior to January 1, 2006 have post-retirement health care coverage and those hired on or after January 1, 2006 receive 2% of their base wages placed into an individual health care savings account. This coverage becomes supplemental to Medicare coverage when the retired employee becomes eligible for Medicare. The unfunded liability as of June 30, is as follows:

	<u>2006</u>	<u>2005</u>
Actuarial determined liability as of December 31, 2004	\$ 1,942,000	\$ 1,942,000
Amount funded as of June 30	<u>170,442</u>	<u>131,783</u>
Unfunded liability	<u>\$ 1,771,558</u>	<u>\$ 1,810,217</u>

The corporation had seventeen and sixteen retirees qualifying for post-retirement health care coverage at June 30, 2006 and 2005, respectively. The cost to the Corporation of providing post-retirement health care coverage for its retirees for the years ended June 30, 2006 and 2005 on a pay-as-you-go basis was \$121,994 and \$120,204, respectively.

Saginaw-Midland Municipal Water Supply Corporation
Notes to Financial Statements
June 30, 2006

NOTE 9 - ECONOMIC DEPENDENCY

Saginaw-Midland Municipal Water Supply Corporation was created to supply water to the Cities of Saginaw and Midland. The water requirements of the Cities are directly related to those of the larger area businesses, which are subject to the general economy of the area. The Corporation's sales to the Cities for the years ended June 30, 2006 and 2005 were \$4,412,052 and \$4,395,944, respectively. These represent 96% of the total operating revenue each year. The Corporation's receivables from the Cities at June 30, 2006 and 2005 were \$204,697 and \$186,746, respectively. These represent 92% of the total receivable balance each year.

NOTE 10 - OPERATING LEASE

Saginaw-Midland Municipal Water Supply Corporation has an operating lease for a land right-a-way which houses a section of the water supply piping. The lease calls for annual payments and continues until the piping is removed from the right-a-way. The annual payment is based on a basic rent of \$1,716 as of January, 1975 and is adjusted every two years thereafter by applying the Bureau of Labor Statistics of the United States Government cost-of-living index. The lease expense for the years ended June 30, 2006 and 2005 was \$9,702.

Saginaw-Midland Municipal Water Supply Corporation
Schedule of Indebtedness
June 30, 2006

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	Amount of Annual Maturity	June 30, 2006
1998 Refunding Bond Issue (Joint Project)	3/5/1998	\$ 13,920,000	4.35%	9/1/2006	\$ 1,090,000	\$ 1,090,000
			4.40%	9/1/2007	1,110,000	1,110,000
			4.50%	9/1/2008	1,185,000	1,185,000
			4.50%	9/1/2009	1,235,000	1,235,000
			4.63%	9/1/2010	800,000	800,000
			5.00%	9/1/2011	790,000	790,000
			5.00%	9/1/12-13	785,000	1,570,000
			5.00%	9/1/2014	820,000	820,000
			5.00%	9/1/2015	865,000	865,000
			5.00%	9/1/2016	940,000	940,000
						10,405,000
2002 Refunding Bond Issue (Joint Project)	12/19/2002	11,180,000	2.40%	9/1/2006	385,000	385,000
			3.00%	9/1/2007	425,000	425,000
			3.25%	9/1/2008	415,000	415,000
			3.25%	9/1/2009	435,000	435,000
			3.50%	9/1/2010	940,000	940,000
			5.00%	9/1/2011	1,060,000	1,060,000
			4.00%	9/1/2012	1,155,000	1,155,000
			4.25%	9/1/2013	1,245,000	1,245,000
			5.25%	9/1/2014	1,310,000	1,310,000
			5.25%	9/1/2015	1,380,000	1,380,000
						1,425,000
						10,175,000
2006 Bond Construction Project	4/24/2006	2,665,000	4.25%	9/1/2006	100,000	100,000
			4.25%	9/1/2007	85,000	85,000
			4.25%	9/1/2008	90,000	90,000
			4.25%	9/1/2009	95,000	95,000
			4.25%	9/1/2010	105,000	105,000
			4.25%	9/1/2011	85,000	85,000
			4.25%	9/1/2012	80,000	80,000
			4.25%	9/1/2013	95,000	95,000
			4.10%	9/1/2014	105,000	105,000
			4.10%	9/1/2015	110,000	110,000
			4.10%	9/1/2016	115,000	115,000
			4.13%	9/1/2017	400,000	400,000
			4.20%	9/1/2018	400,000	400,000
			4.20%	9/1/2019	400,000	400,000
4.20%	9/1/2020	400,000	400,000			
						2,665,000
						\$ 23,245,000

Saginaw-Midland Municipal Water Supply Corporation
Schedule of Financial Highlights

	Year Ended June 30,			
	2006	2005	2004	2003
Millions of Gallons Pumped				
City of Saginaw	8,491.78	8,709.50	8,840.86	9,459.38
City of Midland	7,950.54	8,168.69	8,186.54	8,604.80
	<u>16,442.32</u>	<u>16,878.19</u>	<u>17,027.40</u>	<u>18,064.18</u>
Expenses				
Operating expenses	\$ 2,203,533	\$ 2,190,325	\$ 2,105,509	\$ 1,933,261
Improvement and emergency repair expenses	89,298	139,500	241,095	12,648
Bond interest	967,629	1,021,041	1,078,588	1,119,304
Loss on early retirement of debt	37,821	37,821	260,455	260,455
Depreciation	764,659	764,625	762,529	759,516
Total expenses	4,062,940	4,153,312	4,448,176	4,085,184
Less other income	<u>396,995</u>	<u>369,656</u>	<u>352,654</u>	<u>381,634</u>
Net expenses	<u>\$ 3,665,945</u>	<u>\$ 3,783,656</u>	<u>\$ 4,095,522</u>	<u>\$ 3,703,550</u>
Expense Per 1,000 Gallons Pumped				
Operating expenses	\$ 0.1340	\$ 0.1298	\$ 0.1237	\$ 0.1070
Improvement and emergency repair expenses	0.0054	0.0083	0.0142	0.0007
Bond interest	0.0588	0.0605	0.0633	0.0620
Loss on early retirement of debt	0.0023	0.0022	0.0153	0.0144
Depreciation	<u>0.0465</u>	<u>0.0453</u>	<u>0.0448</u>	<u>0.0420</u>
Total expenses	0.2470	0.2461	0.2613	0.2261
Less other income	<u>0.0241</u>	<u>0.0219</u>	<u>0.0207</u>	<u>0.0211</u>
Net expenses	<u>\$ 0.2229</u>	<u>\$ 0.2242</u>	<u>\$ 0.2406</u>	<u>\$ 0.2050</u>